

Intelligence MEMOS



From: Benjamin Dachis

To: Provincial Governments

Date: March 20, 2020

Re: **PROVINCIAL ECONOMIC POLICY RESPONSES TO COVID-19**

The federal government has announced immediate moves and will likely announce more to support the Canadian economy in light of COVID-19. What should provincial and local governments now turn their minds to on the economic front?

Some of the large provinces (such as Alberta, Quebec, and B.C.) have already presented their budgets. Others, including Ontario, have yet to present their fiscal and economic outlook.

Regardless, published or planned numbers are out the window. Every jurisdiction will need to address a dramatic fall in revenues, an increase in health expenses, disrupted education and social services, and pressure to support local economies.

Here are some principles they should follow in the coming weeks.

First, in dealing with the short-, medium-, and long-term economic hurt, provinces should use the tools they are best suited to using to address current and longer-term concerns. The federal government holds most of the tools for immediate fiscal response: Employment Insurance, personal and corporate income tax filing, and most macro-prudential policies (such as banking regulation).

Provinces face unique challenges on which they must chart their own course. Schools, hospitals, and the many other provincial services are on the front lines of social distancing and treating patients. Much [has been written](#) on these urgent issues elsewhere. What else should provinces look to do in the coming months?

Here's one example: provinces set policies regarding municipal finances and property taxes. They should ensure that cities have the ability to defer property tax collection. Business property taxes are particularly insensitive to short-term ability to pay from income and [economically harmful](#) at the best of times, and should therefore be top of the list for tax deferrals.

On top of the business property taxes cities collect for their own purposes, [most](#) provinces [set](#) 'education' property taxes at the provincial level. Those provinces then [require cities](#) to collect them and remit them to school boards or the provinces. Provinces should allow cities to defer collecting this revenue from the hardest hit businesses, with provincial coffers filling the temporary gap.

Provinces and cities should also be concerned about the health of housing markets. Being able to change homes is a key aspect of a healthy economy. House sales will likely plummet, with potential buyers not able or willing to inspect homes during the busy spring buying season. Transaction volumes will crater, along with the land transfer tax revenues that come with them. To kick-start housing markets once the COVID isolations lift, provinces (and cities such as Toronto and Montreal with extra land transfer taxes) should look to defer to the end of the year collection of [economically costly](#) land transfer taxes on transactions over the next few months.

Provinces and cities should [resist the temptation](#) to follow playbooks from previous stimulus episodes such as the 2008-09 recession tactic of boosting infrastructure or non-health spending. Additional infrastructure spending risks bidding up prices for already scarce trades labour that is already committed to provincial infrastructure plans.

What provinces and cities can do is ease the burden on [permitting](#) and [regulation](#) on [many activities](#) they regulate to help business come roaring back once our COVID isolations lift.

Provinces will need to look at their employment and licencing laws, for health workers in particular. As a previous [C.D. Howe Institute](#) memo argued "physicians are licensed provincially, which acts as a barrier to labour mobility and impedes progress on the development of virtual care services." Provinces could unilaterally recognize licences from other provinces to address local shortages with health workers from less affected provinces.

Finally, provinces have less fiscal room than Ottawa. The federal debt-to-GDP ratio is [comparable](#) to that right before the 2008 recession and forecast to improve. In contrast, the [combined provincial](#) debt-to-GDP ratio went from around 20 percent in 2007 just ahead of the 2008 recession to more than 30 percent as of 2018. It is 40 percent or more now in some provinces and forecast to worsen for most provinces. These long-term fiscal challenges make tax deferral, not outright tax cancellations, the ideal way to [bridge](#) through the current crisis.

The clock is ticking on people not going to work, businesses not seeing customers, and many fearful about their short-term financial outlook.

Provinces and cities should follow the key principles of helping businesses and employees get through immediate dislocations in markets and building the conditions for robust growth when they return.

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